



COMMITTEE of the WHOLE

CITY COUNCIL

MINUTES
October 17, 2016
5:00 P.M.

COUNCIL MEMBERS PRESENT:

S. Marmarou, J. Waltman, J. Slifko, B. Twyman, M. Goodman-Hinnershitz, D. Reed

OTHERS PRESENT:

L. Kelleher, S. Katzenmoyer, C. Younger, G. Steckman, C. Turtell, D. Cituk, H. Tangredi, M. Thompson

The Committee of the Whole meeting was called to order at 5:05 pm by Mr. Waltman.

I. 2015 External Audit Review

Mr. Turtell and Ms. Thompson from Herbein & Co reviewed a power point presentation highlighting the 2015 external audit.

Ms. Encarnacion arrived at this time.

Mr. Turtell detailed the City's pension obligation. He stated that one of the Police actuarial assumptions was slightly skewed as they estimated the number of FOP members who purchase "ghost time" lower than the 80% who actually take advantage of this option.

Mr. Steckman stated that the State pension aid will increase in 2016.

Mr. Turtell explained that the low return on investments is due to the current market conditions.

Ms. Goodman-Hinnershitz noted the need for additional follow up on the return on investments. Mr. Cituk stated that he will provide additional information.

Mr. Pottiger arrived at this time.

Mr. Steckman stated that a new actuarial study will be performed in 2016. He stated that the three pension funds combined are currently at distress level 2 but when considering the Police Pension alone it is approaching distress level 3. He stated that the City has other options. He stated that an aggregated fund with representatives from all three Pension Boards would allow one firm to oversee the fund and would reduce hidden costs and fees. He stated that the individual Boards would remain in place and would make recommendations to the aggregated board.

Mr. Slifko questioned if this could be done without union approval. Mr. Steckman stated that it can since the liability belongs to the City.

Mr. Turtell stated that the market is not in good condition to sustain a high rate of return. He noted the need for the actuarial to look forward to set the new rate of return.

Mr. Twyman stated that GASBS 68 requires the pension liability to be included in the audit. He questioned if it was included in the past. Mr. Turtell stated that it was included as a footnote. He stated that this is the first year that it is required to be reported in this way. Mr. Steckman stated that the City knew about the issue and that GASBS 68 was phased in. He stated that the full liability must now be shown on the balance sheet. He stated that this obligation was always shown on private company's balance sheets. He stated that this will not affect the City's bond rating as the pension obligation was always reported in the past.

Ms. Goodman-Hinnershitz noted the need to use the audit to provide direction for moving out of Act 47. She noted the need to use this tool to determine the condition of the City as it moves out of recovery and into the possibility of receivership.

Mr. Turtell and Mr. Steckman stated that even a small change in the return on investment will have a large impact on the pension funding obligation. Mr. Steckman stated that he is already in conversations with Mr. Mann about the pension obligation.

Mr. Waltman expressed the belief that the pension obligation has been the elephant in the room for many years. He expressed the belief that the State has failed to approve pension reform and that the State should be managing all the pension funds. He stated that the pension obligation continues to cause tax increases. He reminded all that the City funded 70% of the pension obligation with a bond on the eve of the most recent market collapse. He stated that this proves that the pension funds require professional oversight. He noted the need for the State to make decisions on this issue.

Ms. Goodman-Hinnershitz suggested that pension and healthcare costs be discussed in more detail at a Saturday work session. She noted the need to look forward and not backward.

Mr. Marmarou noted his disagreement with Mr. Waltman and stated that the City caused its own problem with the Police pension.

Mr. Steckman stated that the aggregate pension board or a pension trust fund are options for the City. He stated that the City also has the opportunity to create a cash balance (401 K) or hybrid plan for new employees. He stated that this would be a pre-tax contribution. He also noted the need for the City to address post-employment healthcare costs. He explained how the City can assign a portion of the fund balance to cover the post-employment benefit costs. He stated that the Administration will be making a recommendation on this issue.

Ms. Goodman-Hinnershitz noted the need for more detail.

Mr. Steckman stated that if the City does not assign a portion of the liability to the fund balance it creates the appearance that the City has money available due to the General Fund surplus. He stated that this is a false impression of wealth.

Ms. Goodman-Hinnershitz suggested a separate session on this issue. Mr. Slifko agreed with the need for a separate session on this issue and suggested a Saturday meeting.

Mr. Slifko questioned if assigning a portion of the fund balance is legal. Mr. Steckman stated that it is but that it will apply to AFSCME only. He explained that FOP and IAFF are governed by State regulations.

Mr. Marmarou questioned how all this affects the current pensioners. He stated that they call him with questions because City staff is not available. Ms. Goodman-Hinnershitz cautioned against answering their questions since Councilors are not pension experts.

Mr. Mann arrived at this time.

Mr. Slifko questioned if the recommendation will be to dedicate \$7 million of fund balance to the pension liability. Mr. Steckman stated that there are many options. He stated that a portion could also be assigned to capital. He expressed the belief that the fund balance should provide some comfort that the City finances are now being managed properly. He stated that the Administration would be making a presentation on assigning the fund balance.

Ms. Goodman-Hinnershitz questioned if the presentation would be before passage of the budget. Mr. Steckman stated that it would not.

Mr. Daubert requested Mr. Mann's opinion on this matter. Mr. Mann suggested that the City not assign the entire amount of fund balance over the required two month balance. He noted the need to continue to grow the fund balance.

Mr. Steckman noted the Administration's hope that there would be a \$5 million surplus for 2016. Mr. Mann noted the need for the City to be thoughtful and to do valuable things with the fund balance. He cautioned that 2017 would be another difficult year.

Mr. Slifko requested to see all the possible options for use of the fund balance. He noted the need to see them all and to look at the big picture. Mr. Steckman stated that the pension issue is very involved and requires time. He agreed with the need for the City to be thoughtful through this process. He stated that once the funds are assigned that the City loses the liquidity to use these funds for other purposes. He stated that there are also options regarding the self-insurance fund.

Mr. Waltman noted the need for all these options to correlate with the Recovery Plan. He expressed the belief that it is good to have the pension obligation on the balance sheet.

Mr. Turtell stated that this is positive conversation of deciding how to use the fund balance. He reminded all that for many years the City had a deficit.

Mr. Twyman requested that the Administration provide a list of options to Council so that Councilors can conduct their own research. He stated that guests can also be invited to meetings to speak about how different options worked in their municipalities, what they learned and what they may change. He noted the need to be thorough.

Ms. Goodman-Hinnershitz noted the need for Council to make informed decisions. She stated that when the funds are assigned it will affect future decisions. Mr. Mann agreed and offered to participate in these conversations. He stated that the City will be under the Recovery Plan for three more years.

Mr. Turtell stated that the surplus in the Trash/Recycling Fund includes the settlement of the recycling truck lawsuit. He stated that without the lawsuit this Fund would have had a \$763,000 surplus.

Mr. Turtell praised the City's accounting staff and stated that the current staff is stronger than in many past years. He apologized to Council for the delay in providing the audit report.

Mr. Slifko questioned if there was an increase in the findings. Mr. Turtell stated that there is an increase but that some have already been corrected. He also praised CD staff for their timely monitoring and follow up of funds.

Ms. Goodman-Hinnershitz questioned if the report would be reviewed at a public meeting. Mr. Turtell stated that he will be making a public presentation at the October 24 Council meeting.

Ms. Goodman-Hinnershitz noted the need for the public to have this information and to get a better understanding of the City's finances. She stated that this was a great presentation.

Mr. Turtell and Ms. Thompson left the meeting at this time.

II. 2017 Budget versus Act 47 Recovery Plan

Mr. Mann stated that PFM is currently reviewing the draft 2017 budget. He stated that he will make recommendations for modifications as necessary.

Mr. Waltman questioned if the Recovery Plan assumed a certain level of employees but used the real costs. Mr. Mann stated that it did.

Mr. Steckman stated that there was a trigger in the Plan for 2017. He stated that Police would need to take a 3.5% salary cut or give back the purchase of “ghost time.” He stated that when the contract expires that all provisions are frozen.

Mr. Waltman questioned this Plan language. Mr. Mann stated that the intention was to bring the parties to the table to negotiate a reduction in post-employment benefits. He stated that the savings in post-employment benefits costs could then be used to offset the 3.5% salary reduction. He explained that the cost of the assumed personnel in each category was used to set each of the salary caps.

Mr. Waltman stated that the City cannot meet this provision of the Recovery Plan. Mr. Steckman stated that there may be other options.

Mr. Waltman stated that the Recovery Plan required the City to reduce its costs. He stated that residents continue to make a large investment in the City. Mr. Mann agreed and stated that the Plan is not allowed to affect retiree benefits. He noted his work to get the City into a stronger financial position to exit Act 47. He stated that the City cannot recover if pension costs continue to rise.

Ms. Goodman-Hinnershitz stated that depending on additional discussion, an executive session may be needed.

Mr. Waltman expressed the belief that Act 47 cannot fix this problem.

Mr. Waltman noted the need for another session with Mr. Mann to discuss the specific 2017 draft budget and possible modifications. Mr. Steckman stated that he has been in contact with Mr. Mann during the budget preparation process.

Mr. Steckman described a possible vacancy allowance solution that Easton and Pittsburgh used to avoid the salary reduction and the reduction in the number of officers. He stated that the Administration has heard the community’s concern with reducing the number of police officers. He stated that there is frequent turnover in Police because they have many other opportunities. He suggested that this turnover be used to the City’s advantage and suggested that a \$500,000 vacancy allowance line item be added to the budget. He stated that when

positions are vacant it takes time to fill them due to the timing of academy classes and the use of the civil service list.

Mr. Waltman stated that the City often has reduced spending in salary line items when positions are vacant. He cautioned that this can also lead to increased spending in Police overtime. He noted his support of this option for the 2017 budget.

Mr. Marmarou questioned if this approach worked in Easton and Pittsburgh. Mr. Mann stated that it does and that there is always a delay when hiring new staff.

Ms. Goodman-Hinnershitz suggested that the City consistently report the number of officers to allay the community's fears. Mr. Steckman stated that this information should not be publicized.

Mr. Mann stated that the 2017 post employment costs for Police cannot be addressed. He stated that the timeline is now too short.

III. Executive Session

Mr. Waltman announced the need for Council to enter executive session to discuss a litigation matter. Council entered executive session at 6:49 pm and exited at 7:18 pm.

Ms. Goodman-Hinnershitz stated that the remaining agenda items would be deferred to a future meeting.

The meeting adjourned at 7:18 pm.

*Respectfully Submitted by
Linda A. Kelleher, CMC, City Clerk*